

Message Text

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ORIGIN EB-07

INFO OCT-01 ARA-06 ISO-00 OPIC-03 L-02 TRSE-00 COME-00

HUD-01 AID-05 OMB-01 USIE-00 SSO-00 NSCE-00 CIAE-00

DODE-00 INR-07 NSAE-00 PA-01 PRS-01 SP-02 SS-15 NSC-05

INRE-00 /057 R

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APPROVED BY EB/IFD/OIA:CNELLIS

ARA/CEN:DLAZAR (DRAFT)

OPIC/ID:BTMANSBACH (INFO)

AA/SER/H:PMKIMM (INFO)

LA/DR:WMANN (INFO)

L/EB:SRBOND (INFO)

L/ARA:DAGANTZ (INFO)

OPIC/D:JROFFUTT (INFO)

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O 122041Z HAY 75

FM SECSTATE WASHDC

TO AMEMBASSY SAN JOSE IMMEDIATE

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E.O. 11652:N/A

TAGS: EINV, CS

SUBJECT: OPIC PROJECT - MORTON B. TURBOW

REF: A. STATE 19753; B. SAN JOSE 192

1. OPIC AND TURBOW'S LAW FIRM HAVE PROVIDED CLARIFICATION
AND NEW INFORMATION DESIGNED TO MEET OBJECTIONS RAISED REF-
TEL A. THE FOLLOWING PARAGRAPHS ADDRESS THESE POINTS IN
THE SEQUENCE OF REFTEL A.

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2. APPLICABILITY OF OPIC/EMBASSY LAND ACQUISITION POLICY:

OPIC ASSURES THAT THE USG WILL NEVER BE REQUIRED TO FORECLOSE ON THE MORTGAGES. THE COSTA RICAN BANK WILL FULLY GUARANTEE THE MORTGAGES AND OPIC'S RECOURSE WILL BE AGAINST THE BANK. IF EMBASSY CONSIDERS IT DESIREABLE, OPIC IS WILLING TO INCLUDE IN ITS CONTRACT A PROVISION MAKING OWNERSHIP BY OR LEASE TO ANYONE OTHER THAN A LATIN AMERICAN OR A CARIBBEAN NATIONAL A BREACH OF THE INSURANCE COVERAGE WHICH WOULD RESULT IN LAPSE OF INSURANCE. TURBOW'S COSTA RICAN ATTORNEY ASSURES HIS CLIENT THAT SUCH A RESTRICTION WOULD BE VALID UNDER COSTA RICAN LAW. REQUEST YOUR COMMENT ON THIS AND SUBSEQUENT POINTS.

3. POLITICAL PROBLEMS: IN DEPT'S VIEW, THE PRINCIPAL

QUESTION IS WHETHER THERE IS GOOD REASON TO BELIEVE THIS PROJECT WOULD ENGENDER CRITICISM FROM WITHIN OR WITHOUT THE GOCR LIKELY TO ENDANGER THE PROJECT ITSELF NOW OR AT SOME FUTURE TIME OR TO WORSEN THE CLIMATE FOR FUTURE FOREIGN INVESTMENT. LACK OF CONSISTENCY OF THIS PROJECT WITH COSTA RICAN DEVELOPMENT PRIORITIES (PARA. 6) IS ONE POSSIBLE BASIS FOR SUCH CRITICISM. OPIC STATES THAT, ACCORDING TO TURBOW AND HIS ATTORNEYS, HIGH LEVEL GOCR OFFICIALS SUPPORT THE PROJECT. IN RECENT VISIT TO DEPT,

TURBOW ATTORNEY STANTON ANDERSON ASSERTED THAT THE MINISTER OF PLANNING HAD ASSURED HIM OF HIS INTEREST AND SUPPORT (MENCON BEING POUCHED). FOREIGN GOVERNMENT APPROVAL, OF COURSE, IS REQUIRED IN EVERY OPIC PROJECT. EMBASSY IS IN BEST POSITION TO JUDGE BASIS AND EXTENT OF GOCR SUPPORT AND WHETHER NEVERTHELESS THERE ARE FOREIGN POLICY GROUNDS FOR OBJECTING TO THE PROJECT.

4. EFFECT ON US HOUSING INDUSTRY: OPIC HAS RESPONDED THAT THE ADEQUACY OF FUNDS TO MEET US HOUSING INDUSTRY DEMAND SHOULD BE JUDGED BY A COMPETANT AUTHORITY, SUCH AS THE FEDERAL HOME LOAN BANK BOARD IN THE CASE OF FEDERALLY CHARTERED S AND L FUNDS, AND THE CORRESPONDING STATE INSTITUTIONS IN THE CASE OF STATE CHARTERED S AND L FUNDS. TURBOW NOW PLANS TO DRAW FINANCING FROM STATE S AND L'S IN TEXAS AND CALIFORNIA NOT SUBJECT TO REGULATED OFFICIAL USE

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TION BY THE FEDERAL HOME LOAN BANK BOARD. NATIONAL LEAGUE OF SAVINGS AND LOAN INSTITUTIONS HAS SUPPORTED THE PROJECT AS MODEL FOR FUTURE INVESTMENT OVERSEAS BY S AND LS.

5. BONA FIDES: OPIC HAS NOT UNCOVERED ANY ADVERSE INFORMATION REGARDING US PARTICIPANTS IN PROJECT. NO RESPONSE HAS BEEN RECEIVED TO INQUIRY REGARDING BONA FIDES

OF PANAMANIAN PARTICIPANT, AICA-JACMAG.

6. DEVELOPMENT EFFECTS: OPIC POINTS OUT THAT HOUSING PROJECT WOULD NOT BE COMMERCIALY VIABLE IF ONLY A TINY PROPORTION OF COSTA RICANS COULD AFFORD UNITS AND THAT THE VERY WEALTHY WILL NOT LIVE IN A HOUSING DEVELOPMENT. THUS DATA PRESENTED IN SAN JOSE 1684 (GREATLY APPRECIATED HERE) APPEAR TO IMPLY THAT TURBOW HAS COMMITTEED SURPRISING MISCALCULATION OF AVAILABLE MARKET. WE HOPE IT WILL BE POSSIBLE TO SHED FURTHER LIGHT ON THIS POINT. IN THIS REGARD, LATEST INFORMATION FROM TURBOW'S ATTORNEYS ON COST

AND MORGAGE PAYMENTS IS FOLLOWING, IN DOLLARS: PRICE 26,000 TO 28,500; TWENTY PERCENT DOWN, REMAINDER FINANCED OVER 20 YEARS AT 12.5 PERCENT. WE ESTIMATE THAT PURCHASE

PRICE OF DOLS 27,000 ON THESE TERMS WOULD REQUIRE MONTHLY PAYMENT OF ABOUT DOLS 245; HOWEVER, IT IS UNCLEAR WHETHER AVERAGE PRICE OF UNIT IS BEING LOWERED BY INCLUSION OF SOME CHEAPER MODELS OR BY PARING COST OF ALL. FOREIGN EXCHANGE COST TO COSTA RICA, INCLUDING OPIC FEE, IS 12.5 PERCENT; HOUSING PROJECT, OF COURSE, EARNS NO FOREIGN EXCHANGE WITH WHICH TO SERVICE LOAN. COST TO PURCHASERS IN COLONES IS 12.5 PERCENT PLUS ANY DEVALUATION OF COLON WITH RESPECT TO DOLLAR. INCREASE IN COLON COST DUE TO DEVALUATION OVER TWENTY YEAR PERIOD IS IMPOSSIBLE TO PREDICT; AS ONE OF MANY POSSIBLE YARDSTICKS, DEVALUATION DURING 1955-1974 PERIOD WAS 51.7 PERCENT, EQUIVALENT TO 2.1 PERCENT ANNUALLY.

7. THERE ARE SOME OTHER GAPS IN OUR INFORMATION ON DEVELOPMENT EFFECTS. IN GENERAL WE WOULD LIKE TO KNOW HOW THE PROGRAM RELATES TO THE DEVELOPMENT PRIORITIES OF THE GOCR. AS REQUESTED IN STATE 96381, WE WISH INFOR-
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MATION ON NORMAL COSTA RICAN MORTGAGE INTEREST RATES AND TERMS FOR COMPARATIVE PURPOSES. WE WOULD LIKE ESTIMATE OF APPLICABLE REAL ESTATE TAXES. ONE FURTHER AREA ON WHICH WE ARE NOT ENTIRELY CLEAR IS NEED FOR FOREIGN SOURCES OF FINANCING FOR HOUSING INDUSTRY. WHAT EVIDENCE IS THERE THAT THE INDUSTRY LACKS MORTGAGE CAPITAL? WOULD PROJECT HELP ALLEVIATE A SLACK IN THE CONSTRUCTION INDUSTRY (AS TURBOW'S LAWYERS CONTEND) OR WOULD IT DIVERT

RESOURCES NEEDED FOR OTHER TYPES OF CONSTRUCTION? TO WHAT EXTENT DOES THIS PROJECT FILL A GAP IN THE HOUSING MARKET; TO YOUR KNOWLEDGE ARE THERE OTHER PROJECTS IN THE SAME CLASS UNDER WAY OR PLANNED, OR ARE THERE RELEVANT UNUSUAL FEATURES TO EL ROBLEDAL PROJECT?

8. TURBOW'S LAWYERS ALSO INDICATED THAT THE COST OF THE LAND ACCOUNTS FOR ONE-THIRD OF THE COST PER UNIT INVOLVED IN THE PROJECT. THIS WOULD MEAN THAT EACH LOT COSTS APPROXIMATELY DOLS 10,000. DOES THIS APPEAR HIGH TO YOU? IS THERE ANYTHING CONCRETE THAT CAN BE SAID ABOUT THE IMPACT OF PURCHASES BY FOREIGNERS ON URBAN LAND VALUES?

9. ACTION REQUESTED: EMBASSY IS REQUESTED TO COMMENT ON ABOVE POINTS, MAKING REFERENCE TO PREVIOUS MESSAGES AS APPROPRIATE, AND, IF YOU BELIEVE NEW INFORMATION WARRANTS RECONSIDERATION, TO UPDATE RECOMMENDATION IN REFTEL B ON POSITION DEPT. SHOULD TAKE ON PROJECT.

10. OPIC HAS SEEN THIS MESSAGE AND SUGGESTED DRAFTING CHANGES, WHICH HAVE BEEN INCORPORATED. INGERSOLL

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*** Current Classification *** LIMITED OFFICIAL USE

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